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INTRODUCTION

The Office of Internal Audit performed an audit of Leelanau County FIA for the period October 1, 1998 through September 30, 1999. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Leelanau County FIA had 17 full time equated positions (FTE's) at the time of our review. Leelanau County FIA provided assistance to an average 664 recipients per month during FY 1998, with total assistance payments of \$182,892.00 during that year.

SCOPE

Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at the Leelanau County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. Our audit included the following:

Cash Receipts	Cash Disbursements
Accounts Receivable	General Ledger
Modified Accrual Basis Balance Sheet	Safe and Controlled Documents
Food Stamp Inventory and Issuance	Medical Transportation
State Emergency Relief (SER)	Employment Support Services
Client Processing	CIS/ASSIST
IRS Information Security	Payroll and Timekeeping
Procurement Card	Telephone Usage

EXECUTIVE SUMMARY

Based on our audit, we conclude that the Leelanau County FIA internal controls need improvement, particularly in the areas of controlled documents and reconciliation of bank account and the Sign-O-Meter Record, in order to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We found several instances of noncompliance with FIA policies and procedures, and weaknesses in internal controls, which are detailed below. We also noted several areas where Leelanau County FIA was operating in accordance with FIA policies and procedures.

LOCAL OFFICE RESPONSE

The management of Leelanau County FIA has reviewed all findings and recommendations included in this report. They indicated in a memorandum dated February 28, 2000 that they are in general agreement with the report.

FINDINGS AND RECOMMENDATIONS

Cash Receipts

Daily Mail Record of Cash Receipts

1. The Leelanau County FIA did not use the Daily Mail Record of Cash Receipts (FIA-4729) for all negotiables received for deposit, as required by Accounting Manual Item 431. Instead the County used the Record and Disposition of Checks/Warrants (FIA-61) to record all negotiable received in the mail. Use of the proper form helps to ensure that all necessary information is recorded.

WE RECOMMEND that Leelanau County FIA record all negotiables received for deposit on the FIA-4729.

FIA-61 Log Reconciliation

2. Leelanau County FIA did not perform a weekly reconciliation of checks/warrants on hand to the open items on the Record and Disposition of Checks/Warrants (FIA-61), as

required by Accounting Manual Item 460. A weekly reconciliation is necessary for timely detection of any warrants/checks that are lost or stolen, and to ensure that all checks/warrants on hand are properly recorded on the FIA-61. We also noted that the posting of disposition information to the FIA-61 was not up-to-date. Keeping the posting up to date facilitates the reconciliation process.

WE RECOMMEND that Leelanau County FIA perform a weekly reconciliation of checks/warrants on hand to the FIA-61, and keep posting of disposition information on the FIA-61 up-to-date.

Cash Disbursements

Sign-O-Meter Reconciliation

3. Leelanau County FIA never performed the reconciliations of the Sign-O-Meter Record (FIA-4711) with the Check Register, as required by Accounting Manual Item 410.1. Reconciliation of the Sign-O-Meter Record (FIA-4711) with the Check Register is necessary to ensure that no checks go through the check signer that are not accounted for in the accounting records.

WE RECOMMEND that Leelanau County FIA perform the reconciliation of the Sign-O-Meter Record (FIA-4711) with the Check Register every month.

Accounts Receivable

Separation of Duties - Accounts Receivable

4. Leelanau County FIA was not properly separating duties in the accounts receivable function. One clerk was responsible for the entire accounts receivable function, and there was no independent review of the work. Accounting Manual Item 480 requires that the duties of collecting, posting, and reconciling accounts receivable be separated, or that the accounts receivable function be reviewed by an independent supervisor who is not involved in this function. Separating accounts receivable duties or having an independent review of the work helps to ensure the accuracy of the account receivable.

WE RECOMMEND that Leelanau County FIA either separate the accounts receivable duties or have an independent supervisor perform a review of the process.

Collection Letters/Income Tax Stops

5. Leelanau County FIA had no documentation that collection letters had been sent or accounts had been submitted to the Department of Treasury for Income Tax stops for Accounts Receivable which had been written off. Accounting Manual Item 481.2 requires that collection letters be sent and that uncollectible accounts be referred to the Department of Treasury for Income Tax stops. Sending collection letters and referring uncollectible accounts to the Department of Treasury helps to ensure that FIA collects the maximum amount possible on its accounts receivable.

WE RECOMMEND that Leelanau County FIA send collection letters on accounts receivable and refer uncollectible accounts to the Department of Treasury.

General Ledger

Preparation of Bank Reconciliation

6. Leelanau County FIA did not always complete the reconciliation of the Cash Disbursing Account with the balance shown on the bank statement, as required by Accounting Manual

Item 405. The bank reconciliation was off by \$1,724.56. Reconciling to the bank balance each month provides assurance that errors are detected and corrected in a timely manner.

WE RECOMMEND that Leelanau County FIA determine the cause of the \$1,724.56 discrepancy, and then reconcile the Cash Disbursing Account with the bank statement amount each month.

Cash Reserve File

7. Leelanau County FIA did not maintain a Cash Reserve File, as required by Accounting Manual Item 402.6. Maintaining a file with documentation for the reserve's establishment, and transactions affecting the cash reserve will ensure that the cash reserve is appropriately documented and accounted for.

WE RECOMMEND that Leelanau County FIA establish and maintain a Cash Reserve file.

Modified Accrual Basis Balance Sheet

No findings in this area.

Safe and Controlled Documents

Obsolete Controlled Documents

8. Leelenaa County FIA had obsolete Blank Voucher checks (FIA-1802) on hand, which they were not controlling. Accounting Manual Item 403 requires that these documents be controlled, and gives instructions for the destruction of obsolete forms. Keeping obsolete forms on hand and not controlling them increases the risk of these forms being used inappropriately.

WE RECOMMEND that the Leelanau County destroy the obsolete FIA-1802's in accordance with the instructions in Accounting Manual Item 403.

Food Stamp Inventory and Issuance

Transporting Food Stamps to the Post Office

9. Leelanau County FIA had one person transporting food stamps to the post office in an unlocked container. Food Stamp Issuance Instructions Manual Item 500 states that internal controls would be strengthened by using locked mail bags for transporting the food stamps to the post office. Using locked mail bags or having two people transport the food stamps reduces the risk of the food stamps being lost or stolen in transit.

WE RECOMMEND that Leelanau County FIA use locked mailbags or have two employees transport food stamps to the post office.

Medical Transportation

No findings in this area.

State Emergency Relief

No findings in this area

Employment Support Services

No findings in this area.

Client Processing

No findings in this area.

CIS/ASSIST

No findings in this area.

IRS Information Security

No finding in this area.

Payroll and Timekeeping

No findings in this area.

Procurement Card

No findings in this area.

Telephone Usage

No findings in this area.